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USDA FOR FAS/EXPORT CREDITS/ M.CHAMBLISS/
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SUBJECT: BULGARIA REQUEST FOR FY06 USDA PL-480 TITLE I
FOOD FOR PROGRESS GRANT

REF: SECSTATE 139203

This is a joint USDA / STATE / USAID Cable

Post requests a USD 4 million PL-480 Food for Progress grant for FY06 to assist the agricultural sector to compensate farmers and other agricultural producers for losses caused by recent heavy flooding and to provide support for the spring planting in 2006. Funds also will be used to develop irrigation and flood control systems aimed at preventing another such catastrophe as described in ref cables....

FAS, STATE, and USAID fully support this proposal which will provide 15,000 MT of Soybean Meal to the Bulgarian Ministry of Agriculture to implement the above mentioned projects.

Following is the proposed Plan of Operation in the format requested by USDA/Export Credits.

Plan of Operation, FY2006

11. Name and Address of Applicant

Government of Bulgaria

Contacts:

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Agricultural Attaché
Sofia Bulgaria
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12. Country of Donation

Bulgaria

13. and 4. Kind and Quantity of Commodities Requested and Delivery Schedule

| Commodity | Use of Commodity | Quantity Metric Tons (MT) | Package Size | Delivery at U. S. Port |
|--------------|------------------|---------------------------|--------------|------------------------|
| Soybean Meal | Monetization | 15,000 | Bulk | February 06 |
| TOTAL | Monetization | 15,000 | Bulk | February 06 |

15. Program Description

(a) Activity Objectives

The proposed monetization program will address the need to increase agricultural productivity and improve the competitiveness of the Bulgarian agricultural sector. The 15,000 MT of soybean meal will be monetized and local proceeds estimated at \$4 million will be used to compensate farmers and other agricultural producers for losses caused by floods; to provide certified seeds for the spring planting in 2006; and to improve watershed management infrastructure such as improved dikes, dams, irrigation canals, retention walls, and erosion control in order to prevent crops and livestock losses caused by reoccurring floods. The project will be managed by Bulgarian Ministry of Agriculture (MoA) jointly with FAS in-country staff.

Bulgaria has many farmers who intensively cultivate small plots of land as their only source of income and sustenance. Hundreds of thousands of these small farmers cultivate plots located along the flood plains and are therefore susceptible to heavy rains and flooding. During the summer of 2005 flooding caused the destruction of hundreds of thousands of acres of cultivated land as well as displacing 70,000 residential and public building; damaging 1,000 km of roadways, more than 210 critical bridges, over 165 water pipes, demolishing 626 supporting walls, activating 718 landslides, as well as causing billions of dollars in damage.

Monetized proceeds will primarily be used to compensate farmers for lost income and to help repair damaged

small scale irrigation infrastructure and to improve the overall management of flood control systems. The project will improve flood control infrastructure thereby protecting the homes, lives and livelihoods of thousands of low-income Bulgarian peasants. Solutions will focus on simple, low-cost flood prevention and control infrastructure to recover lost land and to protect future crops from flood related damage.

In addition to compensation and flood control measures, this project will provide support for distribution and purchase of certified planting seeds, primarily for corn and sunflower, for the spring planting in 2006.

The proceeds from the monetization will be managed by the Agricultural Attaché, US Embassy and the Minister of Agriculture or their designees. The specific use of funds (such as target beneficiaries, best methods of flood control, selection of contractors, etc.) will be approved upon consensus by the Agricultural Attaché and the Minister of Agriculture and funds will be disbursed only after joint signatures by representatives of both U.S. and Bulgarian governments.

The duration of the project is 18 months following the monetization of the commodities.

(b) Method of Choosing Beneficiaries

Beneficiaries will be farmers or other agricultural producers who suffered the most severe damage in regions of Pazardjik, Plovdiv, Vratza and Pleven. These regions are widely known and have historically suffered damage during years of above average rainfall. The most susceptible land is owned by the most vulnerable populations. Simple low-cost control and conservation methods will advance agricultural productivity and protect and maintain rural incomes.

Benefiting villages and residents will be selected based on need, vulnerability and potential impact. Beneficiaries will be residents of the poorest and most vulnerable communities that possess the highest potential for a successful project intervention.

(c) Program Administration

The Bulgarian Ministry of Agriculture, with support and oversight by FAS Office, will receive and monetize the commodities and create a special project account for the funds generated from the sale of the soybean meal. MoA will be responsible for the overall coordination of the project with representatives of US Embassy, MoA, and office of Agricultural Attaché.

The Ministry of Agriculture will provide personnel dedicated to managing the project. MoA staff in regional offices will provide logistical and technical support needed for implementing the project, while office staff in Sofia will provide clerical, financial and logistical support services.

(d) Activity Budgets

The estimated \$4 million in monetized proceeds will be used primarily to cover the compensation of farmers; to purchase planting seeds and plant protection chemicals for the spring planting and to cover the costs of construction materials, equipment and machinery. MoA will contribute human resources dedicated to managing and administrating the project and technical resources in the area of identification of farmers who need compensations; and in the area of flood control, irrigation and crop production. FAS will support the project with in-country staff that will coordinate and oversee implementation.

All costs for this program not covered by resources provided by the Commodity Credit Corporation will be borne by the Government of Bulgaria.

(e) Recipient Agency

The recipient agency is the Bulgarian Ministry of Agriculture (MoA). Use of all proceeds will be decided by a joint decision of the representatives of US Embassy, MoA, and office of Agricultural Attaché. An attempt will be made to reach a consensus regarding

the use and distribution of program funds, however if

such consensus can not be reached in a reasonable timeframe, the US government retains the right to determine the use of the proceeds. All decisions regarding the use of project funds will be recorded and must be approved in writing. Funds will be disbursed for the special project account only with joint signatures from Agricultural Attaché and Ministry of Agriculture.

GOB will adhere to its laws in allocating, disbursing and auditing use of project funds. The distribution and use of funds will also include a procurement of an independent professional audit. US PVOs, as well as local NGOs, and contractors will be eligible to receive funds or bid on contracts. GOB will require recipient organizations or sub-contractors to demonstrate experience and accountability in order to be eligible for a sub-contract.

The recipient agency has extensive experience in monetization. Given the fact that MoA has committed to this project they will facilitate the process by providing the necessary permits and waivers to allow an effortless and cost-effective importation and monetization of the commodities.

(f) Governmental or Nongovernmental Entities

The Ministry of Agriculture will participate in the project. The project will provide an opportunity to compensate farmers for losses and prepare them for upcoming crop year. In addition, small scale flood control and irrigation projects will be implemented to improve agricultural production. The project will rely on US expertise and will serve as a model for further GOB interventions in other aspects of US-Bulgarian cooperation.

Sub-contracts will be awarded on a competitive basis. International PVOs, as well as local NGOs, will be eligible to bid on different aspects of project implementation such as community organization, flood conservation, construction, or agricultural education.

(g) Method of Educating Consumers

Upon approval of the donation GOB will publicly recognize the USG for the assistance in the mass media and will post banners and signs on project worksites acknowledging the USG as the source of the donation. Distribution of certified seeds and plant protection chemicals for the spring planting, as well as compensation to farmers will be recognized by the MoA press and communication to media and at major agricultural events/trade shows. Individual works, such as dikes, recovered farm land, and irrigation canals will be inaugurated in specific communities and the press will be invited to report on the outcome of the project and report the USG as the source of the donation.

(h) Criteria for Measuring Progress

| Activity | Timeframe For Implementation (months from monetization) | Food Tonnage (MT) |
|---------------------------------|--|----------------------|
| Public Tender to sell Commodity | January 2006 | --- |
| Ship Commodity | March 2006 | 15,000 |
| Identify target communities | Nov. 05 - March 2006 | --- |
| Implement project | March 06 - June 07 | --- |
| Evaluation, reporting | June - Sep. 07 | --- |
| Project end Date | September 30, 2007 | --- |

16. Use of Funds or Goods and Services Generated

(a) Quantity and Type of Commodities

Commodity

Soybean Meal
TOTAL

(b) Impact on Other Sales

There will be no negative impact on commercial sales. Bulgaria is a net-importer of Soybean meal with nearly all of the imports coming from South America. Given the damage to crops caused by the 2005 floods and other

factors, Bulgaria faces a shortage of vegetable protein for both human and livestock consumption.

The importation of 15,000 MT will not affect normal US exports nor displace local production. The Ministry of Agriculture has expressed both their permission for the importation of this commodity as well as their strong desire for this commodity based on the aforementioned shortage of vegetable protein. FAS/Sofia has analyzed normal trade patterns and assures that no market disruptions will occur and no US sales will be affected from the importation of the requested commodity. ASA has been consulted and fully supports the commodity donation.

(c) Amount of Sale Proceeds Anticipated

Commodity

Soybean Meal
Anticipated Interest Earned*

TOTAL

*Interest earned will be used in program activities; estimated at 3.5% on unused balance over 12 months.

(d) Private Sector Participation in the Sale of the Commodities

GOB and FAS have identified and spoken to dozens of potential buyers willing to participate in a public tender. Given the vegetable protein deficit that exists, poultry and animal breeders as well as importers and producers, have expressed interest in bidding on the soybean meal. The number of potential buyers ensures a competitive bidding process that will yield a competitive price equal to or near market value.

GOB, with the support and supervision of FAS in-country staff, will hold a competitive public tender selling the commodities to the highest bidder(s). The commodity donation will be announced publicly in several daily newspapers inviting potential buyers to participate in an informational meeting where the terms of reference for the tender will be discussed. The terms-of-reference will describe the commodity specifications, import conditions, minimum price, transportation requirements, obligations of the buyer, and procedures for the tender.

Monetization will take place at an open bid at Sofia Commodity Exchange based on the experience generated from previous USG programs in Bulgaria. The outcome of the tender will be recorded and the commodity will be sold to the highest bidder(s). The MoA will support the sales with technical staff and supervision from its legal team.

(e) Uses of Sales Proceeds

The proceeds from the monetization of the commodity will be deposited into a special project bank account and administered by MoA for uses determined by the inter-agency committee. The proceeds will go directly into compensations for farmers; purchasing of seeds and plant protection chemicals and implementing program activities aimed at conserving and improving agricultural production in impoverished communities in high-risk flood areas.

The cost of managing and implementing the program will be absorbed by the MoA.

Administrative Expenses and Internal Transportation, Storage and Handling (ITSH)